DOCUMENT RESUME

ED 360 937 HE 026 676

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TITLE Allocating Government Funds to Higher Education Institutions: Inter-Country Comparisons. AIR 1993 Annual Forum Paper.
PUB DATE May 93
NOTE 19p.; Paper presented at the Annual Forum of the Association for Institutional Research (33rd, Chicago, IL, May 16-19, 1993).
PUB TYPE Speeches/Conference Papers (150) -- Historical Materials (060) -- Reports - Descriptive (141)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Block Grants; *Educational Finance; Federal Aid; *Financial Support; Foreign Countries; *Government Role; Government School Relationship; Grants; Higher Education; *Resource Allocation; School Funds; *School Support
IDENTIFIERS *AIR Forum; Canada; *Formula Funding

ABSTRACT

The ways in which governments in different countries determine the amounts of money to be provided to individual institutions of higher education institutions vary considerably. This paper explains how government funds are allocated in Canada, focusing on grants in support of core operations to universities located in Nova Scotia. It examines how and why the current process emerged along with its particular strengths and weaknesses. The paper first provides the history of federal funding for Canadian postsecondary education, followed by specific discussions of funding as it involves Nova Scotia's institutions of higher education. Next, the use and history of formula funding, as developed by the Maritime Provinces Higher Education Commission in 1974, is examined covering both restricted and unrestricted operating grants, such as flat, enrollment, equalization, and supplementary grants. Finally, the paper discusses some of the problems experienced with the old funding formula and the eventual return to block funding encompassing the use of the Basic Operating Grant funding mechanism. (Contains five references.) (GLR)

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ED 360 937

ALLOCATING GOVERNMENT FUNDS TO HIGHER EDUCATION INSTITUTIONS: INTER-COUNTRY COMPARISONS

NOVA SCOTIA, CANADA

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A panel presentation at the 33rd Annual Forum of the
Association For Institutional Research
Chicago, Illinois, May 16-19, 1993

HE026676

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This paper was presented at the Thirty-Third Annual Forum of the Association for Institutional Research held at the Chicago Marriott Downtown, Chicago, Illinois, May 16-19, 1993. This paper was reviewed by the AIR Forum Publications Committee and was judged to be of high quality and of interest to others concerned with the research of higher education. It has therefore been selected to be included in the ERIC Collection of Forum Papers.

Jean Endo
Chair and Editor
Forum Publications
Editorial Advisory Committee

ABSTRACT

The ways in which governments in different countries determine the amounts of money to be provided to individual higher education institutions vary considerably. This paper will explain how government funds are allocated to universities in Nova Scotia, Canada. It will examine how and why the current process emerged along with its particular strengths and weaknesses. This paper is presented as part of an international panel on this topic.

ALLOCATING GOVERNMENT FUNDS TO HIGHER EDUCATION INSTITUTIONS: INTER-COUNTRY COMPARISONS

NOVA SCOTIA, CANADA

INTRODUCTION: UNIVERSITY EDUCATION IN NOVA SCOTIA

In Canada, higher education is the responsibility of the provinces and in the province of Nova Scotia there is a long history of university education. This history dates back to 1789 and the founding of the University of King's College--Canada's first university.

Higher education in Nova Scotia falls under the Ministry of Education, and the universities are accountable to the government through two advisory bodies--the Nova Scotia Council on Higher Education and the Maritime Provinces Higher Education Commission.

Nova Scotia currently has thirteen autonomous degree granting institutions within its university system--in a province of less than 1,000,000 people. Nine of the thirteen institutions were founded prior to 1900. The institutions range in size from 79 full-time equivalent students to just over 9,600. In total, there were 32,019 full-time equivalent students attending the thirteen institutions that comprised the Nova Scotia university system during the 1990-91 academic year.

Each university was established through an act of the provincial legislature. Eleven of the thirteen institutions operate under private boards while two are administered by government departments. All receive the majority of their funding from the province.

FEDERAL FUNDING FOR POST-SECONDARY EDUCATION

As mentioned above, in Canada, higher education falls under provincial jurisdiction. However, in 1945 the federal government became involved in funding higher education by providing direct grants to universities for the education of returning veterans. As funding for veterans declined and following the Massey Commission Report in the 1950s, the federal government instituted a program of direct grants to universities based on provincial population. The direct grants were replaced in 1967 with a federal-provincial shared-cost program combining both cash and tax point transfers. In 1977 this arrangement was changed, through federal legislation by the Parliament of Canada, to what is known as Established Programs Financing (EPF). EPF provides unconditional per capita block grant transfers to the provinces for post-secondary education and health care. These grants, although designated for post-secondary education and health care, can be spent as the provincial governments see fit (AUCC, 1992).

Although it is difficult to determine the exact level of the federal government contribution to higher education in each province, the Secretary of State has recently estimated the federal governments contribution to post-secondary education at $14.5 billion for 1991-92, $10.6 billion of which was spent at the university level. This money was spent in support of 1.4 million Canadians who studied at the post-secondary level in 1991-92; of this number, 867,352 were enroled at universities (Department of the Secretary of State, 1992).

For the most part, the federal government's involvement in funding post-secondary education breaks down into three components: 1) transfers in support of core operations of post-secondary institutions, 2) direct support for university-based

research through its three research councils, and 3) supplementing the monies available from the provinces for student assistance through its Canada Student Loan Program (AUCC, 1992).

This paper focuses on grants in support of core operations.

PROVINCIAL FUNDING OF UNIVERSITIES: NOVA SCOTIA

THE EARLY YEARS

The government of Nova Scotia became involved in funding higher education in the early 1960s. In doing so, it created what was known as the Nova Scotia Grants Commission. This Commission had a mandate to distribute government money to the universities in support of higher education in the province. No formula was used by this Commission for the distribution of provincial monies. Instead grant levels were determined by taking a financial snapshot of each institution at the time government funding was introduced. Thus, grant levels were established based primarily on the sources of income and expenditure levels reflected in the financial statements of each institution at the time the snapshot was taken.

The disadvantage of this approach to funding became clear in the years that followed. Many of the institutions had been founded by religious orders. Thus, included in their financial statements at the time of the snapshot was income derived from contributed services by the members of the Order. This source of

income was as high as 30 percent of overall revenue for some institutions. Consequently, as the institutions became more "public", contributed services disappeared. Since no other source of funding replaced this loss, the financial positions of institutions receiving contributed services was eroded.

FORMULA FUNDING

By the early 1970s the province recognized a need for regional cooperation in higher education. Thus, in 1973 the Nova Scotia government entered into a partnership with the provinces of New Brunswick and Prince Edward Island for the purpose of attaining a more efficient and effective utilization and allocation of resources in the field of higher education in the region. In 1973 the Maritime Provinces Higher Education Commission (MPHEC) was established. Its mandate included making recommendations to the Council of Maritime Premiers regarding the amount of money required from each province to support higher education in that province. It was expected that based on these recommendations, each government would decide how much money would be available to fund higher education each year. Interestingly enough, over the years the government of Nova Scotia developed a reputation for providing fewer dollars than those recommended by the MPHEC, while its sister governments (New Brunswick and Prince Edward Island) provided funding at the level recommended by the MPHEC.

After receiving each governments funding commitment it was then the MPHEC's responsibility to allocate the funds to individual institutions. The MPHEC introduced a formula in 1974 for allocating operating funds to individual institutions (capital funding has always been dealt with on a project by project

basis). The operating grants were divided into two components: unrestricted and restricted.

Restricted Operating Grants

Restricted operating grants, which represented a small percentage (roughly 3.5% in 1991-92) of the overall total, were intended to cover the costs of alterations, renovations and equipment purchases. Restricted operating grants were determined by a formula which took into account enrolments (three-year rolling average of full-time equivalent enrolments weighted to compensate for differences in program costs) and the size of the physical plant (with a premium for age). Money was earmarked for each institution based on this formula, however, universities had to seek prior approval before spending their allotment, and receipts were required for reimbursement.

Unrestricted Operating Grants

Unrestricted operating grants, which made up the lion's share (96.5% in 1991-92) of the overall total, were originally divided into two components--namely a flat grant and an enrolment grant. In later years an equalization grant and a supplementary grant were added to the formula.

Flat Grant:

The flat grant component represented the fixed portion of the unrestricted operating grant. It was determined by taking a percentage of the historical grant and was originally intended to represent 70 percent of an institution's total grant. This was later increased to 75 percent in 1978 to ensure stability of funding during an anticipated period of declining enrolments.

Flat grants were increased annually by a percentage intended to cover changes in the cost of doing business (sustenance). This percentage increase was determined by the MPHEC based on the amount of money left after the other three components of the unrestricted operating grant had been decided (i.e. enrolment, equalization and supplementary grants). The percentage increase was constant for all institutions.

Enrolment Grant:

The enrolment grant was intended to reflect the changing enrolments at each institution. It was projected that institutions would experience declining enrolments over the period this formula was in place. Thus, in order to provide stability in institutional funding during this anticipated period of decline, the enrolment grants were calculated using a three-year rolling average of weighted full-time equivalent (WFTE) students which was one year in arrears (for example, 1979-80 enrolments were not used when calculating the 1980-81 grant). This average was then multiplied by a grant unit (for example, $600).

However, enrolments did not decline; they increased differentially at all institutions throughout the 1980s. Consequently, the supposed advantage of a three-year rolling average WFTE became a disadvantage--especially to the institutions experiencing the fastest rate of growth--since institutions were never fully funded for enrolment increases.

During the early years of this formula, the percentage increase from year-to-year in the enrolment grant unit matched the sustenance increase to the flat grant (for example, if the flat grant was increased by 5% so was the enrolment grant unit). However, when enrolments increased rather than declined, the enrolment grant unit was increased by a constant dollar amount ($20) rather than by a percentage increase. This change was made to try and maintain the 75/25 ratio between the flat and enrolment grants at all institutions when in fact they were experiencing vastly different rates of growth.

Equalization Grant:

As early as 1977 the MPHEC recognized inequities in the level of government support received by various Nova Scotian institutions and recommended a process of equalization. Thus an equalization component was added to the formula in 1977-78. The commitment from government was to try and equalize funding for the institutions over a five year period by designating a percentage of each year's incremental funding for equalization (for example, if the overall increase in government funding for a particular year was 5 percent, 1 percent may have been designated as equalization money).

The equalization grants for individual institutions were calculated by a procedure which used a combination of a "proportional approach" and a "levelling up approach"--based not on the amount of money required but on the amount available. The point of the calculation was to try and bring the level of funding for institutions recognized as being significantly underfunded more in line with the average support level in the system. Thus, the equalization grant was rolled into the flat grant in the following year. It should be noted that not all institutions received equalization grants and that the government commitment was extended from five years to ten.

Supplementary Grant:

The final component of the unrestricted operating grant was a supplementary grant. These grants were seen as special support for such things as new programs and debt servicing. For the most part, they were also rolled into the flat grant in the following year.

Problems Associated with this Formula

The problems associated with this formula were many. First, the flat grants were established in such a way that they retained the historical inequities which had been a part of the previous funding mechanism. Secondly, the formula was designed to fund institutions at a time of declining enrolments when in actuality there was differential enrolment growth among the institutions throughout the eighties. As well, the scheme used for weighting enrolments was questioned by

many as being unfair since its validity was unsubstantiated, and it appeared to exaggerate the cost differential between programs.

Finally, no one was happy with the arrangement for equalization. Those receiving equalization were frustrated by how long it was taking, while institutions who were not receiving equalization payments were upset with the perceived higher level of support being given to others.

A RETURN TO BLOCK FUNDING

Consequently, in 1988 the MPHEC, under pressure from some of the universities, initiated a review of the funding formula. An external consultant was hired to review the formula and to recommend changes.

It was the consultant's opinion that as far as formulas are concerned "the formula in place in the Maritime provinces is one of the better conceived and constructed in Canada" (Adlington, 1988: 3). The problem, however, was that there was insufficient funding in aggregate available to support what the formula was trying to achieve. Since he had been convinced that it was not possible for government to provide a higher level of overall funding in the foreseeable future, and a mere tinkering with the present formula was not seen as a viable alternative, he recommended moving away from the formula approach to funding universities in Nova Scotia. Thus, it was recommended that the MPHEC terminate the present formula and make a "fresh start".

Commensurate with a "fresh start" the Commission was advised to resolve the issue of "equalization" and remove it from the funding mechanism altogether. After having made a one time adjustment for equalization, the other components of the formula (flat, enrolment and supplementary grants) were to be rolled into one Basic Operating Grant. This Basic Operating grant was to be sustained in real value terms and was to be the first priority in allocating incremental funds each fiscal year.

Under this approach, institutional funding would no longer be sensitive to changes in enrolments. Thus, any increase or decrease in enrolment would not directly affect an institution's Basic Operating Grant. To protect against the possibility that institutions would lower enrolments (and consequently accessibility to the system) in order to increase their relative funding on a per student basis, the issue of establishing enrolment corridors was raised. Enrolment corridors would allow institutions to expand or contract within $\pm$ 4 percent of its approved "planned capacity". If an institutions enrolment fell below the lower limit of the corridor it would lose funding. However, if its enrolment increased beyond the upper limit of its corridor it would not receive additional funding unless it had received prior approval for this growth.

In addition to the Basic Operating Grant, it was suggested that a number of policy envelopes be established to address specific issues of concern to the "system". This funding was intended to be incremental and in support of short-term initiatives which required supplementary funding to the Basic Operating Grants. As targeted funding, these envelopes could provide a steering mechanism for the system.

This new funding mechanism was put in place in 1990-91 with the exception of setting enrolment corridors; this has not yet been implemented.
Initially there were four policy envelopes established, however, this number was reduced to three for 1993-94. The three envelopes currently in place cover the following policy issues: the indirect costs of research, accessibility, and rationalization. The fourth envelope, which dealt with new technology and equipment, was eliminated for two reasons. First, it was seen as redundant with the restricted funding available for equipment purchases and secondly, it could be covered under the rationalization envelope.

The first envelope, covering the indirect costs of research, is distributed on a pro rata basis according to the amount of research support received from the federal granting councils. Thus, this envelope has little effect on "steering" the system. This envelope will represent 30 percent of available money in 1993-94 (NSCHE, 1993).

The second envelope is aimed at accessibility for under-represented groups in university programs generally, and for those groups poorly represented in a particular program area. This envelope represents 20 percent of the overall targeted funding available in 1993-94.

The third envelope is aimed at rationalization/revitalization of the system. This envelope will represent 50 percent of the overall targeted funding available in 1993-94.

The institutions are required to compete for money from envelopes two and three. Guidelines and applications are provided by the Nova Scotia Council on Higher Education (NSCHE, 1993).

Problems Associated with this Funding Mechanism

Although it is too early to determine what the long term ramifications of this approach to funding will be on individual institutions or the system as a whole, some observations are possible.

First, the question of "equalization" was never properly addressed. The government's 1978 commitment to equalization was completed without any assessment as to whether or not it had actually achieved its goal. Consequently, no "one-time adjustment for equalization" was added to institutional grants prior to the establishment of the new Basic Operating Grants. Thus, there are those who will argue that the historical inequities have merely been entrenched and perpetuated in the new funding mechanism.

Secondly, it is important to note that no institution used this approach to funding as an excuse to decrease its enrolment in order to increase its relative funding on a per student basis. On the contrary, institutions committed to accessibility have continued to grow even though they are no longer receiving any government support for these new enrolments. However, it is unlikely that this trend can continue in perpetuity.

Finally, the policy envelopes, which are better known as targeted funding, have not yet developed into effective mechanisms for steering the system and will be reviewed by the Nova Scotia Council on Higher Education (NSCHE) over the coming year. The main reason for their ineffectiveness has been a lack of overall funding. Originally there was very little money set aside for this purpose--1.5 million dollars out of a total allocation of approximately 215 million (less than 1%). This amount decreased to 1.1 million in 1992-93 and it now stands at an undetermined amount for 1993-94. The amount is undetermined since it has been announced that an estimated $300,000 will be allocated during a phase one distribution in June 1993, with the remaining undetermined amount to be distributed in October 1993 during phase 2.

CONCLUSION

Thirty years later, Nova Scotia has returned to a non-formula approach to funding its universities. Its previous attempt at formula funding was derailed not because the formula was ill-conceived but because there was insufficient funding available to support what the formula was trying to achieve. Only time will tell if the government's latest attempt to try and steer the system through financial incentives (targeted funding) may be headed for a similar demise as the old formula--again because of insufficient aggregate funding. Obviously, doing away with the old formula without addressing the real issue, which was insufficient funding to support the system as a whole, may prove to be no more viable an alternative than was tinkering with the old formula.

Money aside, Nova Scotia has a tradition of higher education of which it can be proud. The accessibility of higher education to Nova Scotians and the variety of educational opportunities available is commendable. Proof of this strength is the large number of students from other provinces and countries that come to Nova Scotia each year to be educated. Unfortunately our strength is also one of our weaknesses, for although Nova Scotia spends more per capita on higher education than any other province in Canada it spends less per student.

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